

AR31

Cancorp

**BOMAC
BATTEN
LIMITED**
**ANNUAL REPORT
1972**



DIRECTORS AND OFFICERS

DIRECTORS

Reginald A. Batten
George C. Gardiner
Douglas R. Keedwell, C.A.
Charles E. McNellen
Charles H. McNellen
J. Harold Mitchell
Robert M. Sutherland, Q.C.

OFFICERS

Charles H. McNellen
Chairman of the Board
Charles E. McNellen
Vice-Chairman of the Board
George C. Gardiner
President
Douglas R. Keedwell, C.A.
Vice-President and Secretary
W. J. Brown
Treasurer
Ralph W. Porter, C.A.
Comptroller

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Toronto

AUDITORS

Deloitte, Haskins & Sells

BANKERS

The Royal Bank of Canada

SOLICITORS

Fasken & Calvin

HEAD OFFICE

224 Richmond Street West, Toronto

FIVE YEAR FINANCIAL SUMMARY

	1972	1971	1970	1969	1968
CURRENT POSITION					
Current assets	\$ 4,218,852	\$ 3,307,831	\$ 2,831,669	\$ 2,656,117	\$1,962,194
Current liabilities	\$ 2,617,386	\$ 860,928	\$ 955,470	\$ 1,088,178	\$ 953,416
Working capital	\$ 1,601,465	\$ 2,446,903	\$ 1,876,199	\$ 1,567,938	\$1,008,777
Current ratio	1.6	3.8	2.9	2.4	2.0
PROPERTY, PLANT AND EQUIPMENT					
Investment and improvements in property, plant and equipment	\$ 8,441,160	\$ 5,614,523	\$ 5,373,259	\$ 4,996,306	\$4,925,422
Accumulated depreciation	\$ 5,783,488	\$ 3,749,958	\$ 3,564,610	\$ 3,356,931	\$3,071,134
Provision for depreciation	\$ 308,534	\$ 262,108	\$ 261,507	\$ 214,262	\$ 182,034
Expenditures	\$ 369,036	\$ 319,071	\$ 446,051	\$ 177,923	\$ 188,607
SHAREHOLDERS' EQUITY					
Preferred stock	\$ 323,000	\$ 323,500	\$ 349,000	\$ 365,500	\$ 380,000
Class A and common stock	\$ 565,313	\$ 565,313	\$ 565,313	\$ 565,313	\$ 565,313
Retained earnings	\$ 3,560,272	\$ 3,525,401	\$ 3,194,493	\$ 2,911,521	\$2,327,495
Class A and common equity	\$ 4,125,585	\$ 4,090,714	\$ 3,759,806	\$ 3,476,834	\$2,892,808
Per share	\$ 13.52	\$ 13.41	\$ 12.32	\$ 11.39	\$ 9.48
SALES					
	\$14,108,026	\$10,496,130	\$10,952,010	\$10,293,680	\$8,464,353
EARNINGS					
Earnings from operations	\$ 55,348	\$ 415,060	\$ 374,765	\$ 351,021	\$ 182,845
Per Class A Share	\$.23	\$ 1.64	\$ 1.50	\$ 1.42	\$.87
Per common share	\$.03	\$ 1.04	\$.90	\$.82	\$.27
Earnings after extraordinary items	\$ 348,207	\$ 420,460	\$ 376,252	\$ 673,573	\$ 184,545
Per preferred share—available	\$ 107.80	\$ 129.97	\$ 107.80	\$ 184.28	\$ 48.56
—distributed	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
Per Class A share	\$ 1.19	\$ 1.66	\$ 1.51	\$ 2.48	\$.88
Per common share	\$.99	\$ 1.06	\$.91	\$ 1.88	\$.28

REPORT TO THE SHAREHOLDERS

Your Directors respectfully present the Company's Consolidated Balance Sheet as at December 31, 1972, Consolidated Statements of Earnings, Retained Earnings and Working Capital for the year together with the Auditors' Report to Shareholders.

In 1972 consolidated sales were \$14,108,026 compared with the combined sales in the prior year of the Company and Bomac Graphics Limited of \$15,674,028, a decline of 9.9%, Consolidated earnings from operations declined to \$55,348 and earnings after extraordinary items amounted to \$348,207 as compared to \$420,460 in 1971. Earnings for the year for each class A share were \$1.19 (1971—\$1.66) and for each common share 99¢ (1971—\$1.06).

Dividend payments were made at the annual rate of \$6.00 on the preferred shares, 60¢ on the class A shares and 40¢ on the common shares.

Your Directors and Management are disappointed in this substantial decline in earnings from operations. It is true that some decline was expected due to the costs of combining the companies but the extent of the decline was much greater than anticipated.

At the shareholders' meeting of April 26, 1972, the acquisition of the outstanding shares of Bomac Graphics Limited was reported and at this same meeting a change in the name of the Company was authorized to Bomac Batten Limited — Bomac Batten Limitée and this change was subsequently

confirmed by Supplementary Letters Patent dated May 1, 1972.

Before commenting on the operations for 1972, it is important that we review the reasons for this acquisition and the medium and long-range objectives of the Company.

Rapid Grip and Batten, Limited and Bomac Graphics Limited were the two largest producers of printing plates for the letterpress industry in Canada, both having substantial investments in facilities for the production of such plates. Letterpress printing, the oldest of the printing processes, enjoyed by far the largest share of the printing market which included the printing of magazines, newspapers, trade papers, folding cartons, books, direct mail folders and brochures, etc. This printing process failed to keep pace with the other processes such as offset lithography and rotogravure which through developments in new techniques and equipment provided substantial economic benefits at the expense of letterpress. As a result, offset lithography in particular has grown continually since World War II, until today it has taken over all but a few of the national magazines, most of the weekly and business papers, virtually all book printing as well as a high percentage of the folding carton business, leaving letterpress printing with a very reduced field which includes the metropolitan daily newspapers and two national magazines. Rotogravure has taken over many of the mail order catalogues and trans-

parent and foil wrappers for the packaging industry.

Your Management, like many others in the reproduction and printing field, have been aware of the erosion of the letterpress market and the resultant reduced requirements for the various printing plates produced by these two companies. In view of this receding market, both companies had an over-capacity of production facilities and, in fact, the time was approaching when either company could handle the combined sales volume of both companies for letterpress printing plates. It was in this climate that your Management made the decision to purchase the shares of Bomac Graphics Limited, consolidate the plants and prolong the life of the letterpress printing plate divisions as a contributor to the earnings of the Company.

Our medium objective was to stabilize the earnings from this important segment of our business while providing time for the development or acquisition of other avenues of revenue for the long-range growth in earnings of the Company.

With this background, the Company's business was re-organized under the name of Bomac Batten Limited with a goal of establishing its activities in a much broader field of communications. As part of this program, we are increasing our offset separation and motion picture facilities, segments of the communication field that are en-

joying continual growth. We are also producing component parts for the electronic industries as well as products such as sterling silver trays for the collectors' market through our Chemical Milling Division. While this division has not made any contribution to the earnings of the Company to date, it is growing in its activities and we anticipate it will provide earnings in the future.

In reviewing the operations of the Company during 1972, the consolidation of these two competing companies could not be accomplished in any short time. There was duplication in facilities and functions in virtually all segments other than the motion picture subsidiaries of Rapid Grip and Batten, Limited. When two staffs which have been actively competing for many years for the same common market are brought together into one consolidated organization, the human factor presents problems which take some considerable time to work out and provide the proper climate for maximum efficiency. Staff re-location, equipment re-location, establishment of uniform production methods and controls, development of a compatibility among key employees, previously competitive one with another, are some of the problems that were encountered.

We endeavoured to combine the functions with due consideration to the people involved as to their length of service and capabilities, phasing out

duplication where possible and limiting the adjustments in staff to the minimum commensurate with our production and service requirements.

While the consolidation is not yet completed, much has been accomplished and the costs of such are included in our 1972 accounts.

The extraordinary items shown in our earnings include the profit on the sale of one of our Toronto buildings which we will have vacated by March 31. The disposal of this building will reduce our annual costs and is an integral part in the consolidation of our facilities. It is anticipated there will be further property disposals in Montreal and Ottawa during 1973.

Capital expenditures totalled \$369,036, a significant amount of this relating to the purchase of land between our two main buildings in Toronto to provide for further expansion.

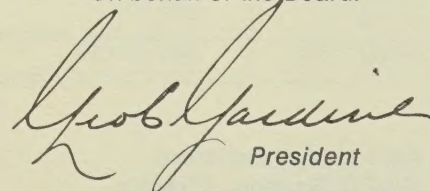
It is impossible to isolate costs of consolidation accurately from our 1972 accounts; however, we know they were substantial and as is often the case in such programs, greater than anticipated for the reasons mentioned previously. It is important, however, that we recognize that these costs are non-recurring. As in all mergers of competing companies, a decline in sales is anticipated and experienced; however, due to unfavourable economic conditions, this decline was accentuated during our consolidation. During 1972 we, like all companies, experienced persistent inflationary

pressures on our costs and in particular as a result of wage increases covered under collective agreements, all of which were concluded during the year with these wage increases retroactive to the early months of 1972. Our motion picture subsidiaries despite increased sales volume experienced a decline in earnings due again to the adverse economic climate and a more competitive market. All of the above in varying degrees account for the decline in our earnings during the year 1972.

Your Management and Directors, however, look forward optimistically to the future of the Company and expect that the benefits of the consolidation will begin to reflect in 1973. We have a fine calibre of administrative, sales, technical and production personnel, and through their efforts we can only anticipate that we will share in the growth of the communication field, thereby provide earnings of a more substantial nature in subsequent years.

We sincerely appreciate the loyalty of our customers and the cooperation and efficiency of our employees who have contributed so much to maintaining our high standards of quality and service throughout a very difficult year.

On behalf of the Board.



President

BOMAC BATTEN LIMITED AND SUBSIDIARY COMPANIES

(formerly Rapid Grip and Batten, Limited)

Consolidated Balance Sheet as at December 31, 1972

ASSETS	1972	1971
CURRENT		
Cash and term deposits	\$ 544,736	\$ 677,275
Accounts receivable	2,849,501	1,933,708
Marketable securities at cost (approximate market value \$9,950, 1971 — \$149,600)	9,750	139,449
Mortgage receivable — current portion	5,979	298,134
Income taxes recoverable	170,102	—
Materials, supplies and work in process at the lower of cost and net realizable value ...	561,815	219,651
Prepaid expenses	76,966	39,613
	4,218,852	3,307,831
INVESTMENTS — at cost		
Mortgage less current portion	369,020	—
Cash surrender value of life insurance	125,289	46,913
Other investments	43,332	8,332
Shares in associated companies	—	82,000
	537,642	137,245
FIXED		
Plants and properties at cost	8,441,160	5,614,523
Less accumulated depreciation	5,783,488	3,749,958
	2,657,672	1,864,565
	\$7,414,166	\$5,309,642

Approved by the Board:
 Geo. C. Gardiner, *Director*
 R. M. Sutherland, *Director*

LIABILITIES AND SHAREHOLDERS' EQUITY	1972	1971
CURRENT		
Bank indebtedness (Note 4)	\$1,590,582	\$ —
Accounts payable and accrued	937,140	786,582
Dividends payable	41,670	23,835
Long-term debt-current portion	47,994	—
Income taxes payable	—	50,510
	2,617,386	860,928
DEFERRED INCOME TAXES	40,200	34,500
LONG TERM DEBT		
Non-interest bearing notes payable in equal annual instalments through 1974	25,988	—
6½ % mortgage payable in semi-annual instalments of \$5,000		
with balance due in 1975	105,000	—
6½ % mortgage payable in quarterly instalments of \$6,250		
with balance due in 1981	225,000	—
	355,988	—
Less current portion	47,994	—
	307,994	—
SHAREHOLDERS' EQUITY (Note 7)		
Share capital		
Authorized		
10,000 6% cumulative redeemable preferred shares with a par value		
of \$100 each and callable at \$104		
200,000 60¢ cumulative participating Class A shares and 200,000		
common shares, both without nominal or par value		
Issued and outstanding		
3,230 preferred shares (1971 — 3,235 shares)	323,000	323,500
126,500 Class A shares {		
178,500 common shares }	565,313	565,313
	888,313	888,813
Retained earnings	3,560,272	3,525,401
	4,448,585	4,414,214
	\$7,414,166	\$5,309,642

See notes to consolidated financial statements.

BOMAC BATTEN LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Retained Earnings for the year ended December 31, 1972

	1972	1971
Balance, beginning of year	\$3,525,401	\$3,194,493
Add		
Earnings for the year	348,207	420,460
Discount on purchase of preferred shares	137	6,477
	3,873,746	3,621,431
Deduct		
Dividends on preferred shares (\$6.00 per share)	19,380	20,130
Dividends on Class A shares (60¢ per share)	75,900	75,900
Dividends on common shares (40¢ per share)	71,400	—
Goodwill on acquisition of subsidiary	112,143	—
Tax of 15% on 1971 undistributed income of subsidiary	34,651	—
	313,474	96,030
Balance, end of year	\$3,560,272	\$3,525,401

Consolidated Statement of Earnings for the year ended December 31, 1972

	1972	1971
Sales	\$14,108,026	\$10,496,130
Earnings from operations before taking into account the following items	\$ 386,321	\$ 958,717
Deduct		
Depreciation	308,534	262,108
Interest on long-term debt	22,995	—
	331,529	262,108
	54,791	696,608
Add		
Investment and other income	71,096	98,785
Earnings from operations before income taxes	125,888	795,394
Income taxes	70,540	380,333
Earnings from operations	55,348	415,060
Extraordinary items (Note 5)	292,859	5,400
Earnings for the year (Note 6)	\$ 348,207	\$ 420,460

See notes to consolidated financial statements.

Consolidated Statement of Working Capital for the year ended December 31, 1972

	1972	1971
SOURCE OF WORKING CAPITAL		
Earnings from operations	\$ 55,348	\$ 415,060
Depreciation	308,534	262,108
Deferred income taxes	5,700	(8,700)
From operations	369,582	668,468
Discount on purchase of preferred shares	137	6,477
Gain on disposal of real estate	271,309	—
Realized gain on life insurance	56,487	—
Income tax reduction on carry-forward of losses	—	5,400
	697,517	680,345
APPLICATION OF WORKING CAPITAL		
Acquisition of Bomac Graphics Limited	2,013,500	—
Less working capital acquired	1,320,366	—
	693,134	—
Consisting of — plants and properties	\$875,680	
— investments	61,200	
— long-term debt	(355,889)	
— goodwill	112,143	
Increase in plants and properties	225,961	318,025
Increase (decrease) in investments	339,196	(329,913)
Dividends	166,680	96,030
Purchase of preferred shares	500	25,500
Decrease in long-term debt	47,895	—
Cost of relocating equipment	24,234	—
Tax of 15% on 1971 undistributed income of subsidiary	34,651	—
Loss on disposal of long-term investments	10,703	—
	1,542,956	109,642
Net increase (decrease) in working capital for the year	(845,438)	570,704
Working capital beginning of year	2,446,903	1,876,199
Working capital end of year	\$1,601,465	\$2,446,903

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1972

1. The financial statements consolidate the accounts of the Company and its subsidiaries Filmpro Limited, Rabko Television Productions Co. Limited, Medallion Film Laboratories Limited, Arco Advertisers Revisions Limited, Fairbairn Studio Limited, Bomac Graphics Limited and Bomac Montreal Limited, all of which are wholly-owned.

The Company acquired all of the issued and outstanding shares of Bomac Graphics Limited on April 17, 1972 for a cash consideration of \$2,000,000 and costs of \$13,500. This acquisition has been accounted for as a purchase and the operating results of this subsidiary have been consolidated from January 1, 1972. The Company has written off to retained earnings the goodwill of \$112,143 arising on this acquisition.

The acquisition equation required by Section 126 of the Ontario Securities Act is as follows:

Net assets, other than goodwill		\$2,021,856
Less adjustment of net assets:		
Write down of investments	\$ 81,414	
Income tax assessment of a prior year	39,085	120,499
		<u>1,901,357</u>
Goodwill on the books of the seller	271,854	
Less discount ascribed to goodwill	159,711	112,143
Cash consideration paid		<u>\$2,013,500</u>

2. On May 1, 1972, Supplementary Letters Patent were issued changing the name of the Company from RAPID GRIP AND BATTEN, LIMITED — RAPID GRIP ET BATTEN, LIMITEE to BOMAC BATTEN LIMITED — BOMAC BATTEN LIMITEE.
3. The figures for the year ended December 31, 1971 are provided for comparison purposes. Such comparative figures are not covered by the accompanying opinion of Deloitte, Haskins & Sells as they were reported upon by other chartered accountants.
4. Bank indebtedness is secured by assignment of accounts receivable and shares of a subsidiary company.
5. Extraordinary items are as follows:

	1972	1971
Gain on disposal of real estate	\$271,309	\$ —
Realized gain on life insurance	56,487	—
Net loss on disposal of long-term investments	(10,703)	—
Cost of relocating equipment less income taxes of \$27,700	(24,234)	—
Income tax reductions on carry-forward of losses	—	5,400
	<u>\$292,859</u>	<u>\$5,400</u>

The costs incurred to date with respect to merging the operations of the Company with those of Bomac Graphics Limited, other than the direct costs of relocating equipment shown as an extraordinary item, can not be accurately determined and have been charged to operations for the year.

6. Comparative earnings per share are:

	Earnings Before Extraordinary Items		Earnings For Year	
	1972	1971	1972	1971
Earnings per Class A share	\$.23	\$1.64	\$1.19	\$1.66
Earnings per common share	\$.03	\$1.04	\$.99	\$1.06

7. Preferred shares totalling 770 have been purchased for cancellation in accordance with the terms of issue including 5 shares purchased during the year. As a result of such purchases retained earnings in the amount of \$77,000 and equivalent to the par value of the shares cancelled are not available for distribution.
8. Information re directors and officers
- (a) During the year the Company had eleven directors whose aggregate remuneration as directors amounted to \$1,400 (1971 - \$2,200). In addition, a director was paid \$2,500 for corporate consulting services (1971 - \$5,000).
 - (b) During the year the Company had nine officers whose aggregate remuneration as officers amounted to \$210,069 (1971 - \$247,676) of which \$143,829 was paid by the Company and \$66,239 by subsidiaries.
 - (c) Seven of such officers were also directors.
9. The Company has guaranteed the loan of an associated company to the extent of \$102,000, and has pledged life insurance policies valued at \$19,240 as security.

AUDITORS' REPORT

To the Shareholders of

BOMAC BATTEN LIMITED:
(Formerly Rapid Grip and Batten, Limited)

We have examined the consolidated balance sheet of Bomac Batten Limited and subsidiary companies as at December 31, 1972 and the consolidated statements of earnings, retained earnings and working capital for the year then ended. Our examination of the financial statements of Bomac Batten Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972, and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
March 2, 1973.

DELOITTE, HASKINS & SELLS
Chartered Accountants

**OFFSET
REPRODUCTIONS
AND
PRESS PLATES**



**MOTION
PICTURE
LABORATORY**

**LETTERPRESS
PRINTING
PLATES**

**CHEMICAL
MILLING
AND CUSTOM
ETCHING**



**SYNDICATED
NEWSPAPER
SERVICES**

**MOTION
PICTURE
PRODUCERS**

**CREATIVE ART
AND
PHOTOGRAPHY**

BOMAC BATTEN

LIMITED

TORONTO MONTREAL OTTAWA LONDON WINNIPEG HALIFAX

AR31

BOMAC BATTEN
LIMITED

interim report

June 30, 1942

CONSOLIDATED STATEMENT OF WORKING CAPITAL

(Unaudited)

	Six Months Ended	
	June 30 1972	June 30 1971
SOURCE OF WORKING CAPITAL		
Earnings (loss) from operations	(\$ 70,018)	\$ 138,191
Depreciation not requiring an outlay of funds	171,683	129,909
From operations	101,665	268,100
Discount on purchase of preferred shares	138	2,790
	\$ 101,803	\$ 270,890
APPLICATION OF WORKING CAPITAL		
Acquisition of Bomac Graphics Limited	2,013,500	
Less working capital acquired	1,320,366	
	693,134	
Consisting of — plants and properties	\$867,135	
— investments	61,200	
— long term debt	(355,889)	
— excess of price paid over book value of assets acquired	120,688	
Increase in plants and properties	84,765	64,245
Increase in investments	5,323	7,296
Purchase of preferred shares	500	10,000
Dividends declared — preferred	9,690	15,390
— class A	37,950	56,925
— common	35,700	—
Decrease in long term debt	17,401	—
	\$ 884,463	\$ 153,856
Net increase (decrease) in working capital for the period	(782,660)	117,034
Working capital beginning of the period	2,446,903	1,876,199
Working capital end of period	\$1,664,243	\$1,993,233

BOMAC BATTEN LIMITED • 224 RICHMOND STREET WEST, TORONTO, ONTARIO

Rapid, Grip & Batten 368-4771

August 31, 1972

To the Shareholders:

As a result of the inclusion of the accounts of Bomac Graphics Limited as of January 1, 1972, consolidated sales have increased by 31.6%. However, sales in all operations of the Company have declined 17.4% prior to the inclusion of the Bomac Graphics' accounts due mainly to a reduced demand for letterpress printing plates, television commercials and film processing.

The following is an unaudited summary of operations for the six-month periods:

	Six Months Ended	
	June 30 1972	June 30 1971
Sales	\$6,941,146	\$5,274,082
Earnings (loss) before		
income taxes	\$ (138,600)	\$ 285,394
Income taxes (recovered)	(68,582)	147,203
Earnings (loss) for the period	\$ (70,018)	\$ 138,191
Earnings (loss) per share:		
Class A	(8¢)	59¢
Common	(38¢)	29¢

This decline in sales, coupled with substantial wage increases to employees covered under recently negotiated industry union collective agreements and additional costs incurred in the combining of the plate-making operations with Bomac Graphics in Toronto and Montreal account for the loss recorded for the six months in review.

There has been an encouraging improvement in sales during July and August, particularly in the offset products of the printing plate divisions and in the television and film processing operations and should this trend continue, combined with the full effect of expense reductions, we anticipate more favourable results for the balance of the year.

Robert G. Batten
President.